



Lloyd's of London Makes Quiet Entrance Into Crypto Insurance Market

Lloyd's of London, the centuries-old insurance marketplace, is quietly providing cover against the theft of cryptocurrencies.

Announced Tuesday, Kingdom Trust, a qualified custodian of some 30 cryptocurrencies and tokens, is enhancing its safe-keeping services with insurance cover for theft and loss due to natural disaster, courtesy of underwriters in the Lloyd's market. Kingdom Trust, which came close to being purchased this year by BitGo, is a qualified custodian, which means it guards the private keys of troves of cryptocurrencies to a standard deemed acceptable to regulated financial institutions.

Matt Jennings, CEO, Kingdom Trust, said in a statement, "We serve both institutional and individual investors by providing qualified custody, which gives our clients the framework they need to ensure compliance with their regulators using clear and transparent reporting."

Stepping back, the ultra-conservative world of insurance is becoming slowly more interested in providing cover for properly custodied digital assets. In the U.S., AIG, XL Catlin, Chubb and Mitsui Sumitomo Insurance have been mentioned in the press, but for now, all are keeping a low profile.

And Lloyd's is also treading carefully; Lloyd's corporation, which is the legal umbrella made up of groups of syndicates spreading risk across the market, would not comment on whether managing agents might be offering crypto theft cover, and the syndicates doing it were not named.

The broker who arranged the Kingdom Trust's cover, Illinois-based Safe Deposit Box Insurance Coverage (SDBIC), said this is likely because there's still a bit of hesitancy in the marketplace about the asset class.

Indeed, Lloyd's of London issued a directive to all its syndicates last month, warning them to proceed with caution with regard to crypto assets, and ensure that managing agents have the required expertise in the underlying risks.

However, the floodgates are close to breaking open, said Jerry Pluard, president of SDBIC.

"About 10 syndicates in Lloyd's have indicated a willingness and are somewhat active in evaluating crypto exposures," Pluard said, continuing:

"Of those 10, I would say there are five that have the level of expertise that allows them to be comfortable enough to do the analysis and underwriting of the risk, and then the other five will follow on with those leads in writing exposure."

In addition, Pluard said there is a whole other set of syndicates in the London market that are considering crypto, but "haven't really jumped to put a policy of paper in place."

Belt and braces

Kingdom Trust managed to secure underwriters from the Lloyd's market thanks to a combination of new technology and battle-tested security protocols, said CEO Jennings.



He reeled off a range of features, including proof of reserve, daily reconciliation audits, external oversight, whitelisting of addresses, multi-geographic location disaster recovery program and employees going through regular due diligence programs.

When everything is done using cold storage (not connected to the internet), an inside job or someone posing as someone else and asking for a transaction to be sent somewhere become the main threats, noted Jennings, hence the whitelisting.

Kingdom Trust's safekeeping solution is much more than a wallet, said Jennings, adding that the insurance market is looking for more than just a good wallet solution from an unregulated third-party software company.

"A lot of people are seeking insurance for hot wallets or what they call warm wallets and some people even call them cold wallets," he said. "But I think the insurance market wants to see an entire safekeeping solution that encompasses the entire atmosphere around the private keys."

No surprises

Jennings said getting Lloyd's to underwrite Kingdom Trust was a win for the broader industry, and that demonstrating a provably robust storage system would start bringing the costs down for everyone.

He said the "KT Icebox" system meant he could offer baseline crypto cover to clients at no additional cost.

Today, a wide range of firms, large and small, are eyeing this space, driven by the allure of institutional investment, regulations permitting. Such players are not surprised to see Lloyd's syndicate underwriters entering the crypto space.

Matt Johnson, chief product officer at DACC (Digital Asset Custody Company), said his company has been looking at insurance policies over the last few months, as they wait patiently in the queue for the SEC to start handing out broker dealer licenses.

"I don't find it surprising that Lloyd's is in this space," said Johnson said, adding that to his mind the challenge for everybody is figuring out how to structure these policies are so that they are actually protective.

He concluded: "You can create an insurance policy that protects no one – you know there are so many caveats to the policy that it's not super protective."

Article By:

Ian Allison

Aug 28, 2018 at 13:00 UTC | Updated Aug 28, 2018 at 13:05 UTC